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Conference on Competition in Wholesale Power Markets (AD07-7-000)

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Good afternoon Chairman Kelliher and members of the Commission. My name is Robert W. Bryant and I am the President and General Manager of Golden Spread Electric Cooperative, Inc. which is headquartered in Amarillo, Texas. Golden Spread provides wholesale power to sixteen members who in turn serve more than 200,000 retail electric consumers in Southwestern Kansas, the Panhandle of Oklahoma, and the Panhandle, South Plains and Edwards Plateau regions of Texas.

On behalf of Golden Spread, its members and their retail consumers, I want to thank the Commission for its continued efforts to foster competitive wholesale power markets. Ultimately, it is those retail consumers who are the intended beneficiaries of successfully competitive markets.

I appreciate the opportunity to participate in this conference and to share with you my concerns about the state of the wholesale competitive markets. My views, naturally, are shaped by my experiences, but I do not think those experiences are unique in the wholesale power market. Attached is a PowerPoint presentation that I intend to use as a discussion guide for my remarks. You will note that my remarks are directed more to areas of concern than kudos for progress already made. I expect that you would not have convened this conference if you did not want to hear comment on where work remains to be done. In any event, I trust that you will not interpret this focus as indicating a lack of appreciation for the past efforts and good intentions of regulators such as yourselves, as well as other electric utility industry participants who support competitive markets.

# Conference on Competition in Wholesale Markets

Docket No. AD07-7-000

## Obstacles to Bilateral Contracts For Load Serving Entities In Deregulated Markets

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# Golden Spread

## Its Purpose and Objective

- Non-profit Generation & Transmission Cooperative
  - Incorporated in 1984 with 11 members serving 88,600 retail consumers with a combined peak load of 550 MW.
  - Became FERC jurisdictional in 1987, reselling full requirements wholesale power purchased from Southwestern Public Service Company (“SPS”)
  - Now has 16 members serving more than 200,000 retail consumers in Southwestern Kansas, the Panhandle of Oklahoma, and the Panhandle, South Plains and Edwards Plateau regions of Texas with a combined peak load of 1,200 MW
  - Members are located in both ERCOT and the Southwest Power Pool (“SPP”)
  - Much of the member load is summer peaking electric irrigation
  - Golden Spread’s purpose and objective is to provide long term, reliable, firm load following power supply to its members

# Golden Spread's Experience with Changing Wholesale Markets

- Since the mid-1980s Golden Spread has actively participated in and has tried to influence the development of regulatory policies affecting the restructuring of the electric utility industry
- In 1995 Golden Spread began the process of developing its own generation as a hedge against the risk of wholesale deregulation in the absence of truly competitive markets
  - Between 1999 and the summer of 2007 Golden Spread will have caused the construction of 790 MW of new generation in the SPS control area

## Golden Spread's Experience with Changing Wholesale Markets (cont'd)

- Golden Spread's fears have been proven correct
  - All of Golden Spread's traditional wholesale suppliers of power have served notice of termination of firm, cost based requirements service
  - In 2003 Golden Spread accepted a new member that had received notice of termination of service from SPS, which had been its full requirements wholesale power supplier for nearly 70 years
    - Because there was no transmission access into the SPS control area, there was no other bilateral sales market for a replacement long term firm load following wholesale power supply
    - Golden Spread had to install generation to serve this new member load

# Uncertain Transmission Expansion Undermines The Emergence of Competition

- Transmission improvements are not being constructed in a timely manner either to maintain reliability or to foster competitive markets
  - Existing transmission owners have a vested interest in limiting transmission expansion
    - It reduces competition in their traditional service areas
    - It maximizes the profitability of their existing transmission plant
    - It maximizes the profitability of their existing generation
- Transmission improvements are not being constructed in a timely manner to meet transmission customer distribution needs
  - Golden Spread has added generation at distribution substations to avoid curtailment of wholesale load because transmission is not adequate to serve the load and needed upgrades will not be made for years

## The “X Plan” Example

- SPP has identified transmission expansion projects considered necessary for Southwestern Kansas, Western Oklahoma and the Texas Panhandle
- Called the “X Plan,” the new transmission facilities will
  - Significantly increase import capability to the SPS control area
    - All existing import capability from the SPP controlled by SPS
  - Create a path to import 430 MW of new capacity from a 700 MW solid fuel plant Golden Spread is developing with Sunflower Electric Power Cooperative
    - Capacity is to replace power now obtained under supply arrangements that are being terminated

## The “X Plan” Example (cont’d)

- SPS voted in an SPP Committee against the SPP issuing notices to proceed with development activities for the X Plan
- It appears that SPS is taking no action to implement the X Plan



## Existing Transmission Constraints Are Costly and Have a Chilling Effect on Bilateral Contracting

- Existing transmission limitations into the SPS control area have resulted in charges in the SPP Energy Imbalance Market exceeding \$2,000/MWH for certain intervals
- Transmission constraints in other parts of the SPP have resulted in similarly high interval charges
- Risk of high current power costs due to transmission constraints has a chilling effect on emergence of bilateral contracts
  - Sellers are risk averse – contracts imposed added cost and risk on the buyer
  - Buyer cannot effectively measure economic risk of TLRs, imbalance charges, replacement power, etc.

# Direct Allocation of Transmission Upgrade Costs Funding Discourages Bilateral Contracts

- Any designation of new supply resources creates exposure to direct transmission upgrade cost allocations
  - Termination of wholesale power contracts forces wholesale customers to obtain new resources
    - Existing TO recaptures both generation and associated transmission
  - The failure of TOs to expand the transmission system assures need for transmission upgrades when DNRs are changed
- Procedure for identifying necessary transmission upgrade costs places great risk on any customer changing resources
  - Base case/change case procedures give grandfather rights to third parties for historic power flows
  - A customer who must change supplies because its contract was terminated may be required to pay for upgrades hundreds of miles away to fix problems caused by termination of the old supply, not the addition of the new supply

## Key Policy Changes Needed to Promote Competition

- Expand current focus on short term energy markets to address long term issues
- Recognize that the energy resource required by most electric customers is long term, firm, load following power
- Adopt policies that support market entry as a means to diminish inherent advantages of existing generators with significant market power

## Key Policy Changes Needed to Promote Competition (cont'd)

- Recognize that truly competitive wholesale markets must have viable bilateral contract opportunities that offer firm power, or unit firm power with reasonable replacement power arrangements
- Do not permit economists' fixation on LMP to undermine long term resource planning
  - Very high LMPs are a sign that the horse has already left the barn
- Firm transmission rights are essential to assure economic value of energy resources is enjoyed by customers who pay the costs of the resources

# Specific Measures That Will Help Promote Competition

- Long Term Backbone Transmission Planning
  - Enforce 10 to 15 year planning horizons with assured construction of backbone transmission necessary to meet loads and resources
    - Transmission now follows generation, backbone transmission should lead generation
  - Transmission routing should be friendly to new generation resources
    - Close to rail, water, developable sites, etc.
  - Costs of backbone transmission upgrades should be postage stamp priced without specific allocation of upgrade costs
- Market structures should be designed to prevent “Blow Out” pricing (e.g., \$1,000+ MWh)

## Specific Measures That Will Help Promote Competition (cont'd)

- All market participants should support maintenance of a replacement reserve market on an insurance pool basis
  - Replacement reserves should provide replacement energy on a cost plus basis to market participants experiencing forced outages

# Conclusion

- Competition at the wholesale level in the electric power industry can contribute to improved efficiency and lower costs
- The nature of the industry today (and for the foreseeable future) is such that competition at the wholesale level for long term bilateral service is limited and must be nurtured by regulatory policies that assure adequate transmission, long term firm transmission rights, and reasonably priced replacement power
- A laissez fair approach to regulation that contributes to price spikes and emerging reliability problems will undermine the development of competition
- Encouraging market entry with the ability to supply firm load following power will expand competition